

## MINUTES

**MEETING OF:** THE AUDITING PRACTICES BOARD

**DATE AND TIME:** Tuesday 22 October 2007 at 9.30am

**PLACE:** Aldwych House,  
71-91 Aldwych,  
London WC2

### PRESENT:

|                      |   |   |
|----------------------|---|---|
| <b>Members</b>       | R Fleck (Chairman)<br>J Grant (Executive director)<br>L Hughes<br>P Lee<br>K Nicholson<br>R Nolan                         | G Pimlott<br>M Powell<br>W Rainey<br>S Turley<br>M Ward |
| <b>Observers</b>     | J Bellingham (UK Department for Business, Enterprise and Regulatory Reform)<br>Ms P Sucher (Financial Services Authority) |   |
| <b>In attendance</b> | Ms K Cearns<br>P George   | Ms E Kyne (for item 8)<br>Ms A Sykes (for item 6)       |
| <b>Staff</b>         | K Billing<br>S Leonard  | D Marston<br>Mrs H O'Sullivan                           |

### ABSENT:

|                  |   |              |
|------------------|---|--------------|
| <b>Members</b>   | A Chambers<br>D Thomas  | T Troubridge |
| <b>Observers</b> | I Drennan (Republic of Ireland Auditing and Accounting Supervisory Authority)<br>D Loweth (ASB) |              |

## **1. Introduction**

### IAASB meeting

Mr Jon Grant reported briefly on a recent meeting of the IAASB in Madrid. He noted that three Clarity ISAs had been finalised and a further two exposure drafts approved for issuance. ISA 580 had also been discussed. While there seemed to be some movement within IAASB towards APB's position on management representations it was not yet clear that the version to be discussed again at the IAASB's next meeting in December would be acceptable.

### EGAOB meeting

Mr Grant also reported on a recent meeting of the EGAOB ISA sub-group, at which a number of Clarity exposure drafts had been discussed. He noted, in particular, that the group had expressed serious reservations over the proposed revision of ISA 530 on audit sampling.

### Auditor training

Mr Grant reported on a recent CCAB training providers forum that he and Mr Martin Ward had attended. The forum discussed the implementation of ISAs (UK and Ireland) as well as broader training and communication issues relating to auditing standards. Minutes of the meeting are being prepared by ICAEW and will be circulated to the Board in due course.

### FRC Seminar

The Chairman noted a recent seminar for the members of the FRC's operating bodies at which Sir Christopher Hogg had described some of the actions needed to implement the changes currently being made to the FRC's constitution. These included the need to appoint the Chairmen of the operating boards. To assist this each Board will be requested to consider its role and activities over the next three years and, in the light of this, take soundings regarding the qualities needed of its future chairman. To assist with the discussion of the APB's future role and activities, the chairman requested APB members to send him their thoughts on significant issues that the APB should address in the future. In due course he suggested that Messrs Lew Hughes and Minnow Powell would seek the views of other APB members on issues related to the future APB chairman.

### APB Awayday

Mr Grant noted that the APB's future role and activities was one of the key topics for the forthcoming Away day. Other issues to be addressed included future developments in Accounting Standards, the wording of the auditor's report and APB's policy to deal with any 'gap' that arises between the completion of the Clarified ISAs and the date of their adoption in the EU.

## **2. Minutes of previous meeting**

The Chairman noted that the minutes of the meeting held on 18 September had been approved following circulation to Board members.

### **3. Ethical Standards**

Mr Grant introduced a draft consultation paper to accompany the exposure draft of a revision of the APB's Ethical Standards (ESs). He noted that the main themes of the consultation paper were to explain the environment that gave rise to the new for APB to issue the original ESs, the developments that had taken place over the last few years and why, in the light of these, there was no reason to make major changes to the ESs, other than those arising from changes in law and international ethical standards.

Board members made a number of comments on the draft including:

- the timing of the finalisation of the revised ESs needs to be harmonised with the date that changes to the Companies Act 2006 become effective. It was agreed that a question would be asked to ascertain if there were impediments to the new ESs becoming effective on 6 April 2008.
- a significant change in the ESs arising from the Statutory Audit Directive is the change to the definition of 'key audit partner'. It was agreed that more emphasis should be given to this in the consultation paper and that transitional relief should be provided within ES3.
- It was also agreed that reference should be made to the interrelationship, as indicated in the 'Smith Guidance', between audit committees' decisions on non-audit services and the ESs; and
- that the wording of the draft question relating to ES-PASE should be amended.

In conclusion it was agreed that a revised draft of the consultation paper would be circulated to Board members before being issued together with the draft revised ESs at the end of October.

### **4. IESBA response**

Mrs Hazel O'Sullivan introduced a draft letter of comment to IESBA on its proposed further revisions of the IFAC Code of Ethics. An amendment was agreed concerning new constraints on the provision of internal audit services, and the letter was otherwise approved for submission to IESBA.

### **5. Group audits**

Mr Grant introduced two draft consultation papers in connection with group audits:

- Proposed addition to ISA (UK and Ireland) 600,
- Action to be taken regarding ISA 600 (Revised and Redrafted).

The first consultation paper was approved subject to extra wording being inserted to indicate the effective date of the change, in line with the changes to the Companies Act 2006.

The second consultation paper concerned options for the early implementation of the revised ISA 600 on group audits into the UK. The two principal options were either to delay the implementation of ISA 600 and make it effective at the time of the other 'clarified' ISAs, or to introduce some or all of its provisions into the UK and Ireland earlier by means of a non mandatory Practice Note.

Some Board members expressed the view that, given the need for consistent implementation internationally, the APB should not issue either a standard or a Practice Note that would cause a difference with other countries as this would lead to implementation difficulties for the global audit firms. A counter view was expressed, however, that as ISA 600 will lead to an enhancement in auditing standards it should be introduced into the UK as soon as possible. It was also noted that the AIU would regard the revised ISA as representing best practice when carrying out inspection work even if it had not formally been introduced into the UK.

It was agreed that the consultation paper should be expanded to more fully address these issues and be further considered at the Board's November meeting.

## **6. Credit Unions in Ireland**

Mr Grant introduced a proposed consultation draft of PN 27 (I): The audit of credit unions in the Republic of Ireland, which had been drafted by a working party in Dublin comprised of audit practitioners. Input had also been received from representatives of the Irish Financial Regulator. He noted that one significant issue remained outstanding: the draft Practice Note (PN) currently indicated that fair value accounting could be applied to credit unions' financial statements whereas the Financial Regulator considered that this was probably not in accordance with the relevant legislation. Given this uncertainty, the Board would not be asked to approve the draft PN at this meeting but should be prepared to approve it by postal ballot.

Mr Ronan Nolan, who had chaired the working party, noted that the APB's involvement with Irish PNs was highly valued and that there was significant demand for a PN for credit unions. All Irish credit unions have a year-end date of 30 September, and it would therefore be helpful for the consultation draft to be issued as soon as possible. It was agreed that Board members should send any drafting comments they had to Mr Nolan, that a comparison should be carried out between the draft PN and the draft PN 19 (I) on the audit of banks, and that a note summarising the outcome of the forthcoming meeting with the Financial Regulator to discuss the use of fair values should be circulated to Board members.

One Board member asked whether the Board was in a position to fully understand Irish law and regulations, and therefore whether it was appropriate to issue this PN on Credit Unions and, indeed, Irish PNs more generally. The Chairman noted that comfort could be drawn from the fact that the Financial Regulator had participated in the development of the PN but that this issue would also be discussed at a forthcoming meeting with IAASA. In addition it was agreed that every effort would be made to encourage Irish responses to exposure drafts and that, in future, the composition of all APB working parties should be pre-approved by the Board to ensure that they included the necessary expertise.

## **7. Credit unions in the UK**

Mr Grant noted that PN 27(I) would be the first instance where guidance was provided on an industry for Irish auditors where equivalent guidance was not available for UK auditors. Board members agreed with the proposal that a PN on the audit of UK credit unions should be prepared.

## **8. Banks in Ireland**

Mr Grant introduced a proposed consultation draft of a revision of PN 19 (I): The audit of banks in the Republic of Ireland, which was based closely on the current PN 19 for the UK. A number of detailed comments were submitted to the working party for inclusion in the final draft. On this basis Board members approved the draft revision for issue as a consultation draft.

## **9. Independent examinations**

Mr Grant introduced a draft letter of comment to the Charity Commission on its consultation paper on revised Directions and guidance for independent examinations. He noted that the most significant issue concerned the current inconsistency, between the draft revision of the APB's PN 11 and the draft Directions, of the guidance for auditors and independent examiners on their whistle blowing responsibilities. Members of the SME audit sub-committee and the PN 11 working party had reviewed the consultation paper and had suggested a number of additional comments. The Board approved the general direction of the letter of comment and its submission to the Charity Commission.

## **10. ISA 510**

Mr Keith Billing introduced a draft APB letter of comment on a revision of ISA 510: Initial audit engagements – opening balances. Subject to the removal of one paragraph on the second page of the draft letter, Board members approved it for submission to the IAASB.

## **11. ISA 530**

Mr Billing introduced a draft APB letter of comment on a revision of ISA 530: Audit sampling. He noted a significant concern that the proposed revisions went beyond those required for clarity, and that as a result the draft revision was overly statistical in nature and generally rather unclear. It was agreed that the wording of the introduction in the draft letter should be strengthened so as to express more strongly the concern with the proposed revision, and that the letter should then be circulated to Board members for final comments before submission to the IAASB.

## **12. Next meeting**

It was noted that the next meeting of the Board would be held on Wednesday 28 November. The Awayday would take place on Friday 16 November.

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